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RUEHBJ/AMEMBASSY BEIJING 0334  
RUEHBO/AMEMBASSY BOGOTA 7369  
RUEHBR/AMEMBASSY BRASILIA 5937  
RUEHBU/AMEMBASSY BUENOS AIRES 1622  
RUEHLP/AMEMBASSY LA PAZ JUN LIMA 0800  
RUEHSP/AMEMBASSY PORT OF SPAIN 3423  
RUEHQT/AMEMBASSY QUITO 2622  
RUEHSG/AMEMBASSY SANTIAGO 3948  
RUEHDG/AMEMBASSY SANTO DOMINGO 0448  
RUMIAAA/HQ USSOUTHCOM MIAMI FL  
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C O N F I D E N T I A L CARACAS 001197

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ENERGY FOR CDAY AND ALOCKWOOD  
NSC FOR DTOMLINSON AND JSHRIER

E.O. 12958: DECL: 01/12/2017  
TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [CH](#) [VE](#)  
SUBJECT: CNPC: DON'T BELIEVE WHAT YOU READ IN THE PAPERS

REF: CARACAS 38

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

11. (C) SUMMARY: Senior China National Petroleum Corporation (CNPC) executives stated recent press reports of the formation of a new joint venture are exaggerated. The executives stated negotiations over the migration of Sinovensa, the entity that produced Orimulsion, to a PDVSA-controlled joint venture are going very poorly. Production from the Sinovensa fields is currently 30% of capacity. CNPC has seen little progress in the certification of reserves in the Junin 4 block in the Faja. END SUMMARY

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REPORTS OF OUR SUCCESS ARE GREATLY EXAGGERATED  
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12. (C) Petroleum Attache (Petatt) met with CNPC America Vice President Ms. Jinling Zhang (strictly protect throughout) and CNPC International attorney Haitao Zhang (strictly protect throughout) on June 15 to discuss recent developments in the hydrocarbon sector. Petatt began the meeting by congratulating the executives on the recent announcement that CNPC and PDVSA had formed a new joint venture to develop the Zumano oil field. The National Assembly's Energy and Mines Commission announced on May 30 that it had approved the creation of Petrozumano, a joint venture between PDVSA (60%) and CNPC (40%). Ms. Zhang responded by laughing derisively and stating the creation of the new joint venture was still "far away." Mr. Zhang agreed with her characterization. Ms. Zhang then illustrated her point by stating she recently told the president of Eni Venezuela that she had read that Eni's negotiations with the BRV were progressing rapidly. The Eni president denied the reports and noted the press had recently announced the creation of Petrozumano. Ms. Zhang replied that the press was equally wrong about CNPC's success.

13. (C) Both Zhangs stated the terms of the new joint venture

were the same as the terms for the joint ventures formed from the former Operating Service Agreement fields. They added that the BRV and PDVSA were unwilling to negotiate on any of the terms. They did not elaborate on why they believed it would still take a considerable period of time to form the new joint venture. At one point, Ms. Zhang stated CNPC has been in negotiations with the BRV over the Zumano field since 12000. Local analysts have stated Petrozumano must be approved by the National Assembly's plenary on two separate occasions and then have its incorporation published in the Official Gazette before it is legally viable.

14. (C) NOTE: According to local analysts, the Zumano oil field is located in eastern Venezuela and has current field production of 15 to 20,000 barrels per day. Remaining reserves are estimated to be 420 million barrels. The analysts claim the reserves are distributed throughout more than 900 reservoirs, which makes recovery technically challenging. END NOTE.

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WE WAS ROBBED  
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15. (C) As reported in Reftel, the BRV stopped production of Orimulsion, an emulsion that is composed of bitumen and water, on December 31, soon after CNPC had finished construction of facilities to produce it. When Petatt raised the subject, Mr. Zhang stated CNPC and the BRV were still in negotiations to migrate Sinovensa, the entity that produced Orimulsion, to a PDVSA-controlled joint venture. The deadline for concluding the negotiations, as is the case with the four Faja strategic associations, is June 26.

16. (C) Mr. Zhang, who was brought in from CNPC headquarters to carry out the negotiations, complained that PDVSA is taking an "all or nothing" attitude. The BRV has heightened pressure on CNPC by reducing Sinovensa's production to 30% of capacity. Production from the Sinovensa fields is blended with Mesa 30 before marketing. Based on the context of both Zhangs' remarks, it appears that CNPC is not receiving any revenue from the sale of the blended crude. Mr. Zhang stated the BRV is demanding that CNPC secure a new license as part of the migration and that it pay the BRV a bonus for the license. Mr. and Ms. Zhang both opined that the BRV would try to tie the Petrozumano joint venture to the Sinovensa negotiations. They believe the BRV will present both investments as a single package and then tell CNPC to either take it or leave it.

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NOT MUCH GOING ON AT JUNIN 4  
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17. (C) CNPC is currently participating in the certification of extra heavy reserves in the Junin 4 block of the Faja. When asked about the progress of the certification studies, Ms. Zhang snorted and stated nothing has happened at Junin 4 for the past two years.

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COMMENT  
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18. (C) The BRV wants to have its cake and eat it too. On the one hand, it is trying to use CNPC to prove that the joint venture model is attractive and that Venezuela is developing a special relationship with China. It is also trying to pressure international and national oil companies by implying that the Chinese are an option if they do not comply with BRV demands during the migration negotiations. On the other hand, the BRV is just as inflexible with CNPC as it is with the other oil companies. At this point, CNPC appears to be willing to go along with the charade, at least publicly. It remains to be seen how long they will continue to do so.

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